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September 1991 Monthly Survey

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Surveys of Consumers

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CONSUMER SENTIMENT STALLED

Sideward Drift in Sentiment

The Index of Consumer Sentiment was 83.0 in the September 1991 survey, insignificantly above 82.0 recorded one month earlier. Overall, consumer confidence has remained virtually unchanged in the June to September surveys, with the Index remaining in the narrow one Index-point range between 82.0 and 83.0.

The sideward drift in sentiment indicates that consumers have neither tilted toward the view that the recovery has been derailed, nor toward the view that the pace of expansion would soon accelerate. The loss in upward momentum, however, does mean that the current sluggish rate of growth in consumer spending will extend into the months ahead.

The trends recorded prior to the start of past recoveries have also shown a similar lull following the initial improvement in confidence. The initial increase in optimism occurs in advance of tangible gains in the economy. The pause reflects the lag between those prior gains and their subsequent confirmation by actual improvements in the economy. As the recovery gets underway, the initial gains are confirmed, and that confirmation then promotes further improvements.

If the early stages of a recovery are vigorous, the rapid and widespread improvements in the economy quickly reinforce and accelerate the trend toward optimism. In contrast, a sluggish start to the recovery acts to delay and diminish the reinforcement needed to promote further gains. Without confirmation, the trend toward improvement stalls. Slowly improving economic conditions may well cause attitude trends to languish, but sluggish growth does not in itself provide the basis for a sustained and cumulative reversal. Small monthly variations in confidence can be expected in such a sluggish growth environment. A reversal in trend, however, would require a more fundamental change in expectations, as well as confirmation by actual and sustained declines in the economy.

At present, the current lull in sentiment reflects the realignment of the earlier surge in optimism with the now widespread recognition that the recovery will be slow. The continued maintenance of consumer confidence at its currently improved level will provide the foundation on which small gains in consumer spending will be built in the year ahead.

Ability to buy, rather than willingness, remains the most important constraint. Moreover, stubbornly high interest rates on vehicle loans and credit card purchases, as well as less aggressive price discounting, have diminished the ability of consumers to make purchases.

Lower interest rates on consumer loans represent the best antidote for a more vigorous spending outlook. Manufacturers and retailers may be willing to accept lower volumes to protect profit margins by resisting early discounting during this Christmas season. They will, however, confront consumers that are ready and willing to delay purchases in the absence of those discounts. Early recognition that consumers will present an irresistible demand for discounting will bolster sales prospects.

Personal Financial Situation:
Lagging Incomes, Diminished Prospects

Consumers' assessments of their financial situation have remained largely unchanged during the past several months. From June to September, the proportion of families that reported improved finances has remained in the narrow range of 35 to 37 percent, while reports of a worsening financial situation have ranged between 31 and 33 percent. These readings represent only a slight gain above the recession lows. Indeed, of all the various attitude measures, consumers' assessments of their current financial situation have shown the least improvement.

Reports of income declines, already at high levels by the start of the year, have inched upward, with nearly one-in-four households reporting income declines in the September 1991 survey. Falling inflation rates have diminished but not reversed the negative impact of lagging incomes on consumers' financial situations.

When asked about their financial prospects for the year ahead, the proportion of families that expected to be better off financially fell to 32 percent in the September 1991 survey, from 37 percent in August, falling to the lowest level recorded since the start of 1991. Although fewer households expected their financial situation to improve in September, more families did not expect to be worse off. Rather, the shift was toward the view that their financial situation would remain the same considering changes in both incomes and prices--expected by 55 percent in September, up from 48 percent in August.

Stalled Recovery

Following the Spring 1991 improvements in consumers' assessments of conditions in the national economy, no further changes were recorded during the Summer months. When asked to assess current conditions in the national economy, consumers' assessments in September were nearly identical with the June readings. By a margin of two-to-one, consumers still thought the economy was in recession in the September survey (62 versus 27 percent).

To be sure, prospects for the year ahead were much more positive than consumers' assessments of current economic conditions, but the same pattern was shown: the trend toward improvement had stalled by the June survey. Among all consumers in the September 1991 survey, twice as many expected the economy to improve rather than worsen during the year ahead (31 versus 15 percent).

The stalled trend toward improvement has left consumers evenly split on whether the expected progress in the economy would be sufficient to reestablish good times financially in the country as a whole during the year ahead. The lack of further improvement over the Summer months came following substantial gains, with the current outlook still much more favorable than a year ago, when bad rather than good times were expected by a margin of more than three-to-one.

Unemployment Rate Expected
To Remain Unchanged

Unemployment expectations improved considerably in the first half of 1991, but have since then remained largely unchanged. The proportion of households that expected a rising unemployment rate fell from 62 percent in January 1991 to 36 percent by June. Three months later, in the September 1991 survey, the proportion that expected rising unemployment stood at 38 percent.

Importantly, the shift in opinions recorded earlier in the year was not accompanied by the expectation of falling unemployment rates, but rather by the expectation that the national unemployment rate would remain at its currently higher level--expected by 50 percent in September, up from 29 percent in January.

Inflation Expectations
Fall to Four Year Low

The inflation rate expected during the year ahead fell to 3.7% in the September 1991 survey, just below the 3.8% recorded in July. The September

reading was the lowest rate recorded during the past four years. Overall, 40 percent of all consumers expected an annual inflation rate of 2% or less during the year ahead, while just 15 percent expected inflation above 5%.

Interest Rate Declines Expected

Fewer consumers expected interest rate increases in the September 1991 survey than anytime during the past five years. Among all consumers in the September 1991 survey, 30 percent expected interest rate increases during the year ahead, down from 38 percent one month earlier and 63 percent one year earlier.

Vehicle Buying Attitudes Weaken

Vehicle buying attitudes worsened in September, reverting to their lowest level since the start of the year. Among all households, 58 percent reported favorable buying attitudes, down from 64 percent in August. The decline was due to fewer reports of available price discounts on new vehicles, as well as more complaints about rising vehicle prices.

The proportion of households that mentioned that they expected price discounts to be available during the year ahead fell to 39 percent in September, from 48 percent in August and the recent peak of 51 percent in April. At the same time, more families registered complaints about rising vehicle prices in the September 1991 survey than during the prior two years. Among all families, 23 percent thought prices were too high and thus a cause for postponement of purchases in the September 1991 survey, up from 16 percent in August.

Home Buying Attitudes Remain Positive

Favorable attitudes toward buying conditions for homes were held by 74 percent of all consumers in the September 1991 survey. Overall, home buying attitudes have remained largely unchanged since May. Over the past five months, the proportion holding favorable attitudes has remained in the narrow range of 72 to 74 percent.

Lower mortgage interest rates continue to provide the underlying support for these improved attitudes. In the September 1991 survey, 45 percent of all consumers cited the availability of lower mortgage rates, three times the proportion recorded one year ago.

Household Durables: Looking for Price Discounts

Favorable attitudes toward buying conditions for furniture, appliances, home electronics, and other large household durables were held by 65 percent of all households in the September survey.

The greater availability of price discounts on appliances, furniture, and home electronics improved those buying attitudes.

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The September 1991 survey included 500 completed interviews conducted between September 3rd and September 30, 1991.